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FISCAL IMPACT STATEMENT

LS 7123

BILL NUMBER: HB 1286

NOTE PREPARED: Dec 29, 2004

BILL AMENDED:

SUBJECT: Personal Adjusted Gross Income Tax Exemptions.

FIRST AUTHOR: Rep. Woodruff

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: Beginning in 2005, the bill increases the Adjusted Gross Income Tax personal exemption by \$1,000 annually to a maximum deduction of \$5,000. (Current law provides a \$1,000 Adjusted Gross Income Tax personal exemption.) The bill also makes a technical correction.

Effective Date: January 1, 2005 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes to the personal exemption. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities for individual taxpayers by increasing the current \$1,000 personal exemption for the taxpayer, taxpayer's spouse, and the exemption for the taxpayer's dependents, by \$1,000 per year from 2005 to 2008. Thus, the personal and dependent exemption would increase to \$2,000 in 2005 and \$3,000 in 2006. The increase in the personal and dependent exemptions is estimated to reduce revenue from the AGI Tax by approximately \$214.3 M in FY 2006 and \$434.0 M in FY 2007.

Background: Under current statute, an individual taxpayer is entitled to claim a \$1,000 exemption from AGI for himself or herself, the taxpayer's spouse, and the taxpayer's dependents claimed on the federal income tax return. The bill increases the personal and dependent exemptions to \$2,000 in 2005; to \$3,000 in 2006; to \$4,000 in 2007; and to \$5,000 in 2008. An additional \$1,000 exemption amount would reduce a taxpayer's

AGI tax liability by \$34, and an additional \$4,000 exemption amount would reduce a taxpayer's AGI tax liability by \$136. In 2002, approximately 6.07 M people were claimed for purposes of the personal and dependent exemptions. The tax impact of these exemptions totaled about \$206.5 M. The estimated number of persons claimed under the personal and dependent exemptions from 2005 to 2008 and the estimated revenue loss from the yearly exemption increase are presented in the table below. The yearly exemption totals are based on long-run annual growth of about 1.2% annually in the number of personal and dependent exemptions claimed.

Tax Year	Number of Exempt Persons	Additional Exemption Amount	Revenue Loss
2005	6.30 M	\$1,000	\$214.3 M
2006	6.38 M	\$2,000	\$434.0 M
2007	6.46 M	\$3,000	\$659.0 M
2008	6.54 M	\$4,000	\$889.6 M

Since the exemption increases begin in tax year 2005, the fiscal impact would begin in FY 2006. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed exemption would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA Income Tax databases.

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